

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name CHARLEVOIX COUNTY ROAD COMMISSION	County CHARLEVOIX
Audit Date 12/31/04	Opinion Date 4/1/05	Date Accountant Report Submitted to State: 6/27/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)

GARDNER, PROVENZANO, SCHAUMAN & THOMAS, P.C.

Street Address

4855 STATE STREET

City

SAGINAW

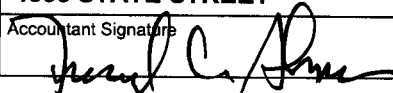
State

MI

ZIP

48603

Accountant Signature



Date

6-28-05

CHARLEVOIX COUNTY ROAD COMMISSION
BOARD OF COUNTY ROAD COMMISSIONERS

Wayne Saunders	Chairman
Doug Way	Vice-Chairman
Keith Ogden	Member
Patrick Harmon	Manager
Shelley Kondrat	Clerk
James Vanek	Staff Engineer

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Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

INDEPENDENT AUDITOR'S REPORT

April 1, 2005

Honorable Chairman
Members of the County Road Commission
County of Charlevoix, Michigan

We have audited the accompanying financial statements of the governmental activities of the Charlevoix County Road Commission, a component unit of Charlevoix County, as of and for the year ended December 31, 2004, which collectively comprise the Road Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Charlevoix County Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Charlevoix County Road Commission as of December 31, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Honorable Chairman
Members of the County Road Commission
County of Charlevoix, Michigan
Page Two
April 1, 2005

In accordance with Government Auditing Standards, we have also issued a report dated April 1, 2005 on our consideration of the Charlevoix County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The additional supplemental information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements of Charlevoix County Road Commission and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Bardner, Proulx, Schuman & Thomas

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

Charlevoix County Road Commission (CCRC) is a single purpose government providing road maintenance and construction on certified county roads in Charlevoix County, Michigan.

In 2003, the Governmental Accounting Standards Board Statement Number 34 (GASB 34) changed the Road Commission's financial statements from modified accrual to full accrual accounting. Government financial statements are based on the modified accrual accounting method, while the term government-wide statements refer to the newly required full accrual method. Full accrual requirements recognize roads, bridges, signals, etc., as capitalized assets; whereas modified accrual does not. Single purpose governments are allowed to show both modified accrual and full accrual statements on a single page.

CCRC audited financial activities are presented herein. These statements include the following:

- Statement of Net Assets and Governmental Fund Balance Sheet,
- Reconciliation of Governmental Fund Balance to Net Assets of Governmental Activities,
- Statement of Activities and Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance, and
- Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund balance of Governmental Fund to the Statement of Activities for the Year Ended December 31, 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Financial Statements

Following are CCRC condensed government-wide financial statements. The reports include current and prior year balances for comparison.

Condensed Statement of Net Assets

Assets	2004	2003
General fund	\$ 2,019,836	\$ 1,936,949
Capital assets	16,859,635	15,935,770
Total Assets	<u>18,879,471</u>	<u>17,872,719</u>
 Liabilities		
General fund liabilities	\$ 187,691	\$ 707,703
Liabilities associated with long-term debt	43,063	41,062
Total Liabilities	<u>230,754</u>	<u>748,765</u>
 Net Assets		
General fund net assets	1,789,082	1,188,184
Invested in capital assets	16,859,635	15,935,770
Total Net Assets	<u>\$ 18,648,717</u>	<u>\$ 17,123,954</u>

Condensed Statement of Activities

Revenue		
Intergovernmental	\$ 5,402,203	\$ 5,836,184
Other contributions and service charges	597,842	939,553
Other	22,716	238,622
Total Revenue	<u>6,022,761</u>	<u>7,014,359</u>
 Expenses		
Primary maintenance	\$ 734,772	\$ 893,386
Local maintenance	1,676,840	1,726,802
Trunkline maintenance	394,057	356,677
Administrative	432,374	431,809
Depreciation	1,259,955	1,113,997
Total Expenses	<u>4,497,998</u>	<u>4,522,671</u>
Change in Net Assets	<u>\$ 1,524,763</u>	<u>\$ 2,491,688</u>

Additional Comments

During 2004, the beginning net assets increased by \$1,524,763 or 9%. As in 2003, the increase in net assets reflects a greater investment in new capital assets, i.e. road improvements and equipment purchases, than the expenses associated with capital assets such as depreciation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Additional Comments (continued)

Compared to the 2003 \$636,331 fund balance decrease, 2004 ended with a \$602,899 or 49% increase of beginning fund balance. The significant change from the prior year resulted from townships purchasing in-stock gravel (CCRC expensed in-stock gravel in 2003), enhancement funds received for the 2003 Donegal Bay Non-Motorized Trail project, and lower expenditures for capital assets. Management is confident the remaining \$1,832,145 fund balance provides sufficient working capital to support future CCRC operations.

Budget

CCRC's budget is prepared in accordance with state law using the modified accrual method, the same accounting basis used for the government.

Original Budget Versus Amended Budget

The 2004 beginning budget was adopted in December 2003. CCRC periodically reviews and amends the budget as information becomes available or management's plans change.

Total budgeted revenue increased by \$957,968 from the original budget, mainly due to:

- Township/other contributions were greater than anticipated.

Total budgeted expenditures increased by \$566,295 from the original budget, mainly due to:

- Heavy maintenance was increased due to a greater number than originally anticipated of township-funded projects.
- Equipment expense increased due to depreciation and additional rental expense due to unanticipated township gravel projects.

Amended Budget Versus Actual

The actual revenue exceeded the amended budget amounts by \$376,293, mainly due to:

- Underestimating November/December 2004 MTF Funds received in 2005.
- Underestimating December 2004 State Maintenance reimbursement.
- Other contributions increased due to new Pine Valley Subdivision in Boyne Valley Township revenue being received after December 31, 2004.

Total actual expenditures exceeded amended budget amounts by \$165,067, mainly due to:

- Annual depreciation not figured into amended budget.
- Administrative expense entry error on amended budget.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets and Long Term Debt

CCRC capital assets, including infrastructure (roads, bridges and signals) are valued, for full accrual accounting purposes, net of accumulated depreciation, at \$16,859,635.

Land and improvements	\$ 1,751,099
Buildings and improvements	1,554,649
Road equipment	4,043,617
Other equipment	220,686
Infrastructure and improvements	<u>20,721,418</u>
Total Capital Assets	28,291,469
Accumulated Depreciation	<u>(11,431,834)</u>
Net Capital Assets	<u>\$ 16,859,635</u>

Additional capital assets information is located in the financial statements, Note 3.

The Charlevoix County Road Commission has no long term debt other than compensated absences in the amount of \$43,063.

Other

Management is not currently aware of any known facts, decisions, or conditions expected to have a significant effect on the CCRC future financial condition.

Contacting the Road Commission's Financial Management

This financial report provides the motoring public, citizens and other interested parties with the Road Commission's general financial overview and accountability for money it receives. If you require further financial information, please contact the Charlevoix County Road Commission administrative office at:

1251 Boyne Avenue
P.O. Box 39
Boyne City, MI 49712-0039

(231) 582-7330

CHARLEVOIX COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2004

	General Fund	Adjustments	Statement of Net Assets
ASSETS			
Cash	\$ 138,792	\$ -	\$ 138,792
Interest bearing accounts	635,699	-	635,699
Accounts Receivable			
State Transportation Department	685,503	-	685,503
Due on County Road Agreement	48,106	-	48,106
Other	3,222	-	3,222
Inventories			
Road Materials	471,266	-	471,266
Equipment, materials, and parts	37,248	-	37,248
Capital Assets			
Land and land improvements	-	1,751,099	1,751,099
Other capital assets, net of accumulated depreciation	-	15,108,536	15,108,536
Total Assets	<u>\$ 2,019,836</u>	<u>\$ 16,859,635</u>	<u>\$ 18,879,471</u>
LIABILITIES			
Accounts payable	\$ 45,309	\$ -	\$ 45,309
Accrued liabilities	24,750	-	24,750
Advances	117,632	-	117,632
Long-term liabilities	-	43,063	43,063
Total Liabilities	<u>187,691</u>	<u>43,063</u>	<u>230,754</u>
FUND BALANCE/NET ASSETS			
Fund Balances:			
Reserved for inventories	37,250	(37,250)	-
Unreserved			
Undesignated	1,794,895	(1,794,895)	-
Total Fund Balance	<u>1,832,145</u>	<u>(1,832,145)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 2,019,836</u>		
Net Assets			
Invested in capital assets		16,859,635	16,859,635
Restricted for primary		1,407,824	1,407,824
Unrestricted		381,258	381,258
Total Net Assets		<u>\$ 18,648,717</u>	<u>\$ 18,648,717</u>

The accompanying notes are an integral part of these financial statements.

CHARLEVOIX COUNTY ROAD COMMISSION
RECONCILIATION OF GOVERNMENTAL FUND BALANCE TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004

Total governmental fund balance	\$ 1,832,145
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	16,859,635
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	(43,063)
Net Assets of Governmental Activities	<u>\$ 18,648,717</u>

The accompanying notes are an integral part of these financial statements.

CHARLEVOIX COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2004

	General Fund	Adjustments	Statement of Activities
Revenue			
Transportation fund	\$ 3,317,613	\$ -	\$ 3,317,613
Economic development fund	210,426	-	210,426
Federal grants	20,332	-	20,332
City and Township contributions	1,853,832	-	1,853,832
Other contributions and service charges	597,842	-	597,842
Other revenues	22,716	-	22,716
Total Revenue	<u>6,022,761</u>	<u>-</u>	<u>6,022,761</u>
Expenditures			
Local construction	166,313	(166,313)	-
Primary heavy maintenance	1,332,580	(1,332,580)	-
Primary maintenance	875,133	(140,361)	734,772
Local heavy maintenance	387,320	(387,320)	-
Local maintenance	2,011,730	(334,890)	1,676,840
Trunkline maintenance	394,057	-	394,057
Administrative	430,373	2,001	432,374
Net equipment expense	(93,108)	93,108	-
Net capital outlay			
Capital outlay	290,342	(290,342)	-
Depreciation	(374,878)	374,878	-
Depreciation	-	1,259,955	1,259,955
Total Expenditures	<u>5,419,862</u>	<u>(921,864)</u>	<u>4,497,998</u>
Excess of Revenue Over (Under) Expenditures	602,899	(602,899)	-
Change in Net Assets	-	1,524,763	1,524,763
Fund Balance/Net Assets - Beginning of Year	<u>1,229,246</u>	<u>15,894,708</u>	<u>17,123,954</u>
Fund Balance/Net Assets - End of Year	<u>\$ 1,832,145</u>	<u>\$ 16,816,572</u>	<u>\$ 18,648,717</u>

The accompanying notes are an integral part of these financial statements.

CHARLEVOIX COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

Net change in fund balance \$ 602,899

Amounts reported for governmental activities are
different because:

Governmental fund reports capital outlays as expenditures. However,
in the statement of activities, the cost of these assets is depreciated
over their estimated useful lives.

Expenditures for capital assets	2,183,820
Current year depreciation	(1,259,955)

In the Statement of Activities, liabilities at the end of the period for
compensated absences are adjusted to their current balance,
whereas in governmental funds, an expenditure is reported when
paid. (2,001)

Change in Net Assets of Governmental Activities	<u>\$ 1,524,763</u>
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The accompanying notes are an integral part of these financial statements.

CHARLEVOIX COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies

The Charlevoix County Road Commission's financial statements are prepared in accordance with United States generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with GASB pronouncements. The more significant accounting policies established in GAAP and used by the commission are discussed below.

In June 1999, the GASB unanimously approved Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments". Certain of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the commission's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for the commission's activities, including infrastructure (roads, bridges, signals, etc.).

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements).

Reporting Entity

For financial reporting purposes, Charlevoix County Road Commission is considered a component unit of the County of Charlevoix, Michigan, in accordance with the criteria established by the National Council of Governmental Accounting (NCGA) in its Statement 3 regarding the definition of the reporting entity.

CHARLEVOIX COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

Reporting Entity (continued)

The criteria established by NCGA for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financing relationships. On this basis, no other governmental financial statements have been included in the financial statements of Charlevoix County Road Commission.

Basic Financial Statements -- Government -Wide Statements

The statement of net assets and the statement of activities display information about the commission as a whole. The purpose of these statements is to distinguish between activities that are governmental and those that are considered business-type activities. Currently, all commission activity is considered governmental.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach is different from the manner in which the governmental fund financial statements are prepared. Therefore, a reconciliation is included to identify the relationship between the government-wide statements and the statements for the governmental fund.

CHARLEVOIX COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

Basic Financial Statements -- Government -Wide Statements (continued)

This government-wide approach is focused more on the sustainability of the commission as an entity and the change in the commission's net assets from the current year's activities.

Basic Financial Statements -- Fund Financial Statements

The accounts of the commission are organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The commission's operations are accounted for in one fund, the general operations fund.

Fund financial statements generally report detailed information about the governmental entity. The focus of the governmental financial statements is on major funds rather than reporting all funds by type. The commission has only one major fund and no non-major funds.

The governmental fund is accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. According to this basis, revenues are recognized when they become measurable and available. Available is defined as being received within two months of year end. Expenditures are recognized in the period in which the fund liability is incurred, if measurable.

CHARLEVOIX COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The commission's cash and cash equivalents are considered to be demand deposits and short-term investments with a maturity date of three months or less when required.

Inventories

Inventories, which consist of road materials and equipment supplies, are valued at cost (first-in/first-out and average cost). Costs are recorded as assets when purchased, and charged to expense when used.

Capital Assets and Depreciation

Capital assets purchased or acquired are reported at historic cost. Contributed assets are reported at fair market value when received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation is computed on the sum-of-the-year's-digits methods for road equipment and straight-line method for all other capital assets over the following estimated useful lives:

	<u>Years</u>
Buildings	25 – 50
Road Equipment	5 – 8
Other Equipment	4 – 20
Infrastructure	5 – 50

GASB 34 requires the commission to report and depreciate infrastructure assets in its government-wide statements. Infrastructure assets include roads, bridges, traffic signals, etc.

CHARLEVOIX COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting

The commission follows these procedures in establishing the budgetary data reflected in the financial statements:

1. A budget, (prepared on the modified accrual basis of accounting), is submitted to the Charlevoix County Board of Road Commissioners prior to January 1 of each year. The budget includes proposed expenditures and a means of financing them.
2. The Board of Road Commissioners' approved budget is then submitted to the Charlevoix County Board of Commissioners.
3. The budget is adopted on a basis consistent with generally accepted accounting principles and revised as deemed necessary during the year.

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended December 31, 2004, certain unfavorable variances occurred between budgeted and actual expenditures as listed below:

	Amended Budget	Actual	Actual Over Budget
Administrative (net)	\$ 264,612	\$ 430,373	\$ 165,761
Equipment expense (net)	(568,768)	(93,108)	475,660

CHARLEVOIX COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

Deposits and Investments

The Road Commission is authorized, by the State of Michigan, to deposit its funds in banks, savings and loan associations, or credit unions having a principal office in Michigan.

The Road Commission is also authorized to invest in the following:

- a. direct bonds and obligations of the U.S. or agency or instrumentality,
- b. CDs, savings accounts with banks, savings and loan associations, or credit unions which are insured with the applicable federal agency,
- c. commercial paper - within three highest rate classifications by at least two rating services, maturing not later than 270 days. Not more than 50% of any fund may be invested in commercial paper at any time,
- d. U.S. or agency repurchase agreements,
- e. bankers' acceptance of U.S. banks,
- f. mutual funds - investments which local unit can make directly.

The FDIC insures up to \$100,000 per demand deposit, however, separately named accounts of a governmental entity may not necessarily be treated as separate deposits for purposes of applying the \$100,000 limit. Total cash deposited and investments at December 31, 2004 are as follows:

	Total	Insured	Collateralized	Uninsured Uncollateralized
Cash	\$ 478,126	\$ 100,000	-	\$ 378,126
Investments held by County	635,899	-	-	635,899
Totals	<u>\$ 1,114,025</u>	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ 1,014,025</u>

All investments are held by the Charlevoix County treasurer; therefore the insured amount of Road Commission investments is not determinable.

Since the County has in excess of the \$100,000 limits, all Road Commission investments are presumed to be uninsured and uncollateralized.

CHARLEVOIX COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 2--Pension Plan

Plan Description

The Road Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board, Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing the Municipal Employees' Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The Road Commission is required to contribute at an actuarially determined rate; the current rate is 10.38% of annual covered payroll. Employees are currently not required to contribute to the plan. The contribution requirements of the Road Commission are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Road Commission depending on the MERS contribution program adopted by the Road Commission.

CHARLEVOIX COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 2--Pension Plan (continued)

Annual Pension Cost

For the year ended December 31, 2004, the Road Commission's annual pension cost of \$129,708 for MERS was equal to the Road Commission's minimum required contributions. The Road Commission's actual contribution for 2004 was \$159,843. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increase of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit and (d) the assumption that benefits will increase 2.5% per year after retirement for persons under Benefit E-1 or E-2. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect market value. The Road Commission's actuarial accrued liability is \$681,316 as of December 31, 2003, the date of the last actuary report.

Three-year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12-31-02	97,349	100%	-
12-31-03	110,628	100%	-
12-31-04	129,708	100%	-

The Road Commission's actual contribution amount was computed under the Accelerated Funding Credits program adopted by MERS in 1984. The program allows municipalities with funded percentages of 110% or greater to make no contributions.

CHARLEVOIX COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 2--Pension Plan (continued)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets [a]	Actuarial Accrued Liability Entry Age [b]	Unfunded AAL (UAAL) [b-a]	Funded Ratio [a/b]	Covered Payroll [c]	UAAL as a % of Covered Payroll [b-a]/[c]
12-31-01	4,224,110	4,643,011	418,901	91%	1,194,643	35%
12-31-02	4,118,618	4,738,978	620,360	87%	1,271,667	49%
12-31-03	4,225,977	4,907,293	681,316	86%	1,308,565	52%

NOTE 3--Capital Assets and Depreciation

A summary of the changes in capital assets is as follows:

	Balance 12-31-2003	Additions	Retirements	Balance 12-31-2004
Capital Assets Not Being Depreciated				
Land and improvements	\$ 82,574	\$ -	\$ -	\$ 82,574
Land and improvements, infrastructure	1,414,937	253,588	-	1,668,525
Total Land and improvements	1,497,511	253,588	-	1,751,099
Other Capital Assets				
Buildings and improvements	1,541,451	13,198	-	1,554,649
Road equipment	3,781,590	301,377	39,350	4,043,617
Other equipment	216,486	4,200	-	220,686
Infrastructure and improvements	19,088,792	1,632,626	-	20,721,418
Total Other Capital Assets	24,628,319	1,951,401	39,350	26,540,370
Total Capital Assets	26,125,830	2,204,989	39,350	28,291,469
Accumulated Depreciation				
Buildings and improvements	420,130	51,593	-	471,723
Road equipment	2,933,433	329,096	39,350	3,223,179
Other equipment	159,257	15,358	-	174,615
Infrastructure and improvements	6,677,240	885,077	-	7,562,317
Total Accumulated Depreciation	10,190,060	1,281,124	39,350	11,431,834
Total Net Capital Assets	\$ 15,935,770	\$ 923,865	\$ -	\$ 16,859,635

CHARLEVOIX COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 4--Long-Term Liabilities

Compensated Absences - Employees accumulate 8 hours of sick leave per month. A maximum of 520 hours can be accumulated. Upon termination, the employee receives no payment for the accumulated sick leave.

Employees can carry over up to 5 days of vacation per year. Accumulated vacation is fully paid to the employee upon termination of employment. Accumulated vacation amounted to \$43,063 at the end of 2004.

NOTE 5--Risk Management

The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2004, the Road Commission participated in the Michigan County Road Commission Self Insurance Pool (SIP), a public entity risk pool currently operating as a common risk management program for road commissions in the State of Michigan. The Road Commission pays an annual premium to SIP for its general insurance coverage. The SIP is self-sustaining through member premiums.

During 2004 the Road Commission also participated in the County Road Association Self Insurance Fund (SIF) for its workers' compensation benefits. The SIF is also a common risk management program for road commissions in the State of Michigan and is self-sustaining through premiums.

In the event of unusually high claims, both the SIP and the SIF have the authority to bill the member road commissions retroactively. The Road Commission continues to carry commercial insurance for other risks of loss, including employee health and accident and life insurance.

CHARLEVOIX COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 6--Contingency

The Commission has received significant financial assistance from state agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission. In the opinion of management, any such disallowed claims could have a material effect on any of the financial statements included herein or on the overall financial position of the Commission at December 31, 2004.

Federal financial awards received under the planning and construction program in the amount of \$20,332 are administered by the State of Michigan. The Road Commission has no responsibility regarding fiscal or compliance controls over such assistance.

REQUIRED SUPPLEMENTAL INFORMATION

CHARLEVOIX COUNTY ROAD COMMISSION
BUDGETARY COMPARISON SCHEDULE
GENERAL OPERATIONS FUND
FOR THE YEAR ENDED DECEMBER 31, 2004

	Original Budget	Final Budget	Actual	Actual Vs. Final Budget Favorable (Unfavorable)
Revenue				
Transportation fund	\$ 3,605,000	\$ 3,278,451	\$ 3,317,613	\$ 39,162
Economic development fund	-	-	210,426	210,426
Federal grants	142,000	135,170	20,332	(114,838)
City and Township contributions	500,000	1,848,029	1,853,832	5,803
Other contributions and service charges	400,000	340,000	394,057	54,057
Other revenues	41,500	44,818	226,501	181,683
Total Revenue	<u>4,688,500</u>	<u>5,646,468</u>	<u>6,022,761</u>	<u>376,293</u>
Expenditures				
Heavy maintenance	662,088	1,953,553	1,886,213	67,340
Regular maintenance	2,969,768	2,910,556	2,886,863	23,693
Trunkline maintenance	400,000	410,000	394,057	15,943
Administrative (net)	479,744	264,612	430,373	(165,761)
Equipment expense (net)	137,650	(568,768)	(93,108)	(475,660)
Capital outlay (net)	39,250	284,842	(84,536)	369,378
Total Expenditures	<u>4,688,500</u>	<u>5,254,795</u>	<u>5,419,862</u>	<u>(165,067)</u>
Excess of Revenues Over (Under) Expenditures	-	391,673	602,899	211,226
Fund Balance, Beginning of Year	1,229,246	1,229,246	1,229,246	-
Fund Balance, End of Year	<u>\$ 1,229,246</u>	<u>\$ 1,620,919</u>	<u>\$ 1,832,145</u>	<u>\$ 211,226</u>

ADDITIONAL SUPPLEMENTAL INFORMATION

CHARLEVOIX COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - - SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004

	Appropriated		County	
	Primary	Local	Road Fund	Total
	Roads	Roads		
Revenues				
Federal	\$ 20,332	\$ -	\$ -	\$ 20,332
Transportation Fund	2,058,879	1,115,514	-	3,174,393
Engineering	6,500	3,500	-	10,000
Snow removal allocation	55,952	77,268	-	133,220
Total Transportation	2,121,331	1,196,282	-	3,317,613
Economic Development Fund	130,334	80,092	-	210,426
Township contributions	1,223,150	630,682	-	1,853,832
Other				
Trunk line maintenance	-	-	394,057	394,057
Salvage sales	-	-	2,084	2,084
Interest earned	6,012	-	7,058	13,070
Other	2,813	174,388	34,146	211,347
Total Other	8,825	174,388	437,345	620,558
Total Revenues	3,503,972	2,081,444	437,345	6,022,761
Expenditures				
Construction	-	166,313	-	166,313
Heavy maintenance	1,332,580	387,320	-	1,719,900
Maintenance				
Roads	403,672	1,379,670	-	1,783,342
Winter maintenance	433,473	610,185	-	1,043,658
Traffic control	37,988	21,875	-	59,863
Total Maintenance	875,133	2,011,730	-	2,886,863
Other				
Trunk line maintenance	-	-	394,057	394,057
Administrative expense	199,062	231,311	-	430,373
Equipment expense	466,006	859,814	53,402	1,379,222
Less: equipment rental	(497,467)	(917,858)	(57,005)	(1,472,330)
Capital outlay	75,489	-	214,853	290,342
Less: depreciation	(146,202)	-	(228,676)	(374,878)
Total Other	96,888	173,267	376,631	646,786
Total Expenditures	2,304,601	2,738,630	376,631	5,419,862
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,199,371	(657,186)	60,714	602,899
Other Financing Sources (Uses)				
Optional transfers	(359,811)	359,811	-	-
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	839,560	(297,375)	60,714	602,899
Fund Balances, Beginning	568,264	-	660,982	1,229,246
Interfund Adjustment	-	297,375	(297,375)	-
Fund Balances, Ending	\$ 1,407,824	\$ -	\$ 424,321	\$ 1,832,145

See independent auditor's report.



Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

April 1, 2005

Members of the Board
of County Road Commissioners
of Charlevoix County
Charlevoix, Michigan

We have audited the financial statements of the governmental activities of the Charlevoix County Road Commission, a component unit of Charlevoix County, as of and for the year ended December 31, 2004, which collectively comprise the Charlevoix County Road Commission's basic financial statements, and have issued our report thereon dated April 1, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Charlevoix County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Members of the Board
of County Road Commissioners
of Charlevoix County
Page Two
April 1, 2005

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Charlevoix County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect Charlevoix County Road Commission's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements.

We noted an absence of appropriate segregation of duties consistent with appropriate control objectives.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of management and the Board of County Road Commissioners. However, this report is a matter of public record and its distribution is not limited.

David A. Prevorse, Schuman & Thomas

Certified Public Accountants